

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 SCEM-02 AID-20 CIAE-00 COME-00 EB-11

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USIA-15 DRC-01 NSC-10 SS-15 STR-08 CEA-02 L-03 H-03

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FM AMCONSUL KARACHI

TO AMEMBASSY ISLAMABAD PRIORITY

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AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: ENRG, PK

SUBJECT: CALTEX AND ESSO PROBLEMS WITH GOP AND PRESENT
DIFFICULT PETROLEUM SUPPLY SITUATION IN PAKISTAN

REF: ISLAMABAD 7885

1. CALTEX GENERAL MANAGER, FRED LEVENHAGEN, AND ESSO EASTERN GENERAL MANAGER, CHARLES ROSE, HAVE INFORMED ME OF MEETING CALLED BY MINISTER OF FUEL, POWER AND NATURAL RESOURCES SHERPAO WITH HEADS ALL OIL COMPANIES IN PAKISTAN SCHEDULED MORNING OF SATURDAY, SEPTEMBER 22. LEVENHAGEN AND ROSE BELIEVE MEETING WILL COVER GENERAL INDUSTRY PROBLEMS BUT WILL PRIMARILY BE CONCERNED WITH VERY DIFFICULT SUPPLY POSITION ANTICIPATED FOR COMING WINTER MONTHS WHEN CONSUMPTION INCREASES BY SOME 25 PERCENT, MAINLY IN KEROSENE AND DIESEL CATEGORIES AND IN NORTH OF COUNTRY.

2. LEVENHAGEN SAID SUPPLY POSITION HAD BEEN ANTICIPATED AS
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DIFFICULT EVEN BEFORE COMMUNICATIONS DAMAGE CAUSED BY

FLOOD. OIL COMPANIES HAD BEEN TRYING TO BUILD UP STOCKS IN NORTH FOR WINTER SEASON, BUT DAMAGE TO RAIL LINES, RESULTING IN SLOWER TRAIN SPEEDS OVER REPAIRED SECTIONS AND MUCH GREATER TURN AROUND TIME FOR EMPTY TANK CARS, NOW PREVENTING COMPANIES FROM MEETING EVEN PRESENT FULL DEMAND, LET ALONE BUILDING UP ADEQUATE RESERVES IN NORTH. LEVENHAGEN WILL TELEPHONE CHARGE AFTER ARRIVAL ISLAMABAD EVENING SEPTEMBER 21 IN ORDER MAKE APPOINTMENT DISCUSS PROBLEMS MENTIONED REFTEL EITHER ON SEPTEMBER 22 OR SEPTEMBER 24.

3. ESSO PROBLEMS: DURING CONVERSATION WITH CLAY NETTLES AND ME AT LUNCHEON ON SEPTEMBER 19 CHARLES ROSE OF ESSO ECHOED SAME PROFOUNDLY PESSIMISTIC VIEW OF DIMINISHING POSSIBILITY FOR ESSO CONTINUING ACTIVITIES IN PAKISTAN ON ANY VIABLE AND NORMALLY PROFITABLE BASIS, GIVEN ATTITUDES AND POLICY OF GOP AS EVINCED OVER LONG PERIOD OF TIME. ROSE SAID ESSO BEING CAUGHT INCREASINGLY IN A BIND BETWEEN GOP LIMITATIONS ON SALES VOLUME AND PROFITS ON THE ONE HAND, AND EVER RISING COSTS BECAUSE OF WAGE INCREASES ON THE OTHER. ROSE SAID HE COULD UNDERSTAND AND APPRECIATE POSITION OF GOP IN FAVORING NATIONAL COMPANIES IN ALLOTMENT OF NEW FILLING STATIONS, BUT THAT ARBITRARILY RESTRICTIVE GOP PRICING POLICIES IN RELATION TO EVER INCREASING EXPENSES WERE RENDERING THE WHOLE ESSO OPERATION HERE LESS AND LESS ATTRACTIVE.

4. IN RECENT MONTHS GOP DELAYS IN SUBSIDY PAYMENTS TO ESSO ON IMPORTED REFINED PRODUCTS WHICH LOCALLY SELL AT GOP CONTROLLED PRICE FOR LESS THAN IMPORT PRICE HAD RESULTED IN GOP DEBT TO ESSO OF MORE THAN \$300,000. ESSO DOES NOT FANCY ITS INCREASINGLY IMPORTANT ROLE AS FINANCIER FOR GOP SUBSIDIES. IN FACT, ROSE AND ESSO HAVE NOW DECIDED THAT FUTURE FOR ESSO EASTERN HERE SO COMPLETELY WITHOUT PROMISE THAT HE WILL OFFER TO SELL ENTIRE COMPANY TO GOP AT TIME OF MEETING IN ISLAMABAD ON SEPTEMBER 22. ROSE BRINGING WRITTEN PROPOSAL FOR SALE OF COMPANY WITH HIM TO ISLAMABAD FOR PRESENTATION TO SHERPAO.

5. COMMENT: WHILE ROSE HAS UTTERED NO SUCH STATEMENTS TO OUR KNOWLEDGE AS CONTAINED PARA FOUR REFTEL (ALLEGING MORE POSITIVE USG RESPONSE TO REQUESTS FOR HELP FROM GOP THAN LIMITED OFFICIAL USE

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REQUESTS TO HELP AMERICAN CORPORATIONS HERE) HIS VIEWS AND THOSE OF LEVENHAGEN CONCERNING MINIMAL FUTURE FOR U.S. PETROLEUM COMPANIES IN PAKISTAN LARGELY COINCIDE. THEY ARE ALSO IN LINE WITH THE PESSIMISM WHICH CHARACTERIZED THE OUTLOOK OF ROSE'S HIGHLY EXPERIENCED AND CAPABLE PREDECESSOR STANLEY YOUNG BEFORE HIS RETIREMENT LAST YEAR. BRYANT

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